

Governance

Corporate Governance statement

Introduced by the Chairman, this report explains our application of the AIC Code principles and our compliance with the UK Corporate Governance Code Provisions.

Leadership

This describes our governance framework, including the role of the board, its Committees and support organisation, as well as board activities during the period.

Biographies

This introduces our Directors and the senior executives of our Investment Adviser. It sets out their skills, experience and areas of expertise.

Effectiveness

This describes our activities with respect to board appointments and evaluation.

Remuneration and Nomination Committee report

This initial report from the Remuneration and Nomination Committee sets out its future role in overseeing its delegated responsibilities for ensuring the effectiveness of the board in managing the affairs of the Group through succession planning, appointments, an appropriate approach to diversity and suitable remuneration.

Accountability

This describes areas of collective board responsibility for activities to do with risk management and internal control and financial reporting.

Audit Committee report

This report sets out the detailed composition, role and activities of the committee in overseeing its delegated responsibilities for ensuring technical elements of the board's accountability. This includes the supervision of the external auditor, key financial judgements, and the consideration of the content of the statutory reports and financial statements.

Management Engagement Committee report

This initial report from the committee sets out its role in overseeing the performance and relationships with our external support organisations.

Relations with Shareholders

This describes our activities during the period in communication with our shareholders and ensuring the Directors develop an understanding of the views of major shareholders.

Directors' Remuneration report

This report sets out the policy we apply to remuneration for our Directors and how we have applied this in the period under review.

Directors' report

This report sets out mandatory disclosures not presented elsewhere, including information on our significant shareholders and the required statements of responsibilities.

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Corporate governance statement – Chairman's introduction



I believe that the Company's approach to governance should be respectful but pragmatic and that it is important for us to use good governance to drive the Company's performance, rather than simply seeking to comply with the extensive and complex rules and regulations that your Company is bound by.

I am pleased that we have been able to assemble a high quality board with a diverse and complementary set of relevant capabilities, covering property, finance, strategy, banking, governance and shareholder relations. The field in which we operate is highly technical and this range of skills and experience has been important to us as a new company. Pages 42-43 have more information about the directors.

We have strong investment support from our Investment Adviser and strong regulatory support from our AIFM and Administrator and I want to pass on the thanks of the board for their efforts on the Company's behalf.

It has been a busy and active period for the board, in which we have:

- Agreed our second portfolio acquisition, subject to Care Quality Commission approval. Part of the benefit of this acquisition is an increase in tenant diversity.
- Raised additional funds through the second equity raise.
- Commenced the asset management programme through the approval of three significant extensions of capacity.
- Strengthened the board's capabilities with the appointment of Paul Craig.
- Established our governance structure and processes.

We want the portfolio to be dynamically managed. We encourage the Investment Adviser to look for opportunities to invest in the portfolio and to buy and sell assets. We are pleased that our Investment Adviser has strengthened its team to meet the demands of growth.

Further details on this work is set out in this Corporate Governance Statement and in the Strategic report.

It is a fundamental element of our approach to governance that the directors have an obligation to hand over the Company to their successors in good shape and that we demonstrate good custodianship of the assets in our control.

As part of this, when the Company was set up, we were keen to ensure the quality of the portfolio was maintained and contractual provisions were put in place for tenants to spend a minimum amount on upgrading and maintaining the properties they rent from us.

At our quarterly meetings, the performance of our tenant group is scrutinised and discussed, including rent cover, occupancy and whether they are meeting their maintenance commitments; we also pay close attention to the CQC's assessment of the properties in our portfolio.

I believe that the board has started well and has had a good, first financial period. We are looking forward to getting to grips with the exciting challenges of the next one.

Rupert Barclay Chairman
21 March 2018

Compliance

Impact Healthcare REIT plc is a real estate investment trust. Our ordinary shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange on 7 March 2017.

The Company is a member of the Association of Investment Companies (AIC). The board has considered the principles and recommendations of the 2016 version of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses the principles set out in the UK Corporate Governance Code 2016, as well as setting out additional principles and recommendations on issues that are of specific relevance to Impact Healthcare REIT plc.

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders than using the broader approach of the UK Corporate Governance Code.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

- The UK Corporate Governance Code includes various provisions relating to:
 - The role of the chief executive
 - Executive directors' remuneration
 - The need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of Impact Healthcare REIT plc, as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

- A.4.1 The board should appoint one of the independent non-executive directors to be the senior independent director. At IPO, all board members were independent and supported the business in ensuring it was delivering in line with its commitments as set out in the IPO Prospectus. With the appointment of Paul Craig and the establishment of all other governance aspects, the board took the decision in March 2018 to appoint David Brooks as the senior independent director.

- B.2.1 There should be a nomination committee (AIC 9 If the whole board nominates candidates, it should explain in the annual report why it has done so rather than establish a separate nomination committee) and D.2.1 The board should establish a remuneration committee. At the time of Listing the whole board was independent and therefore the functions of the Nomination Committee and Remuneration Committee were performed by the board as a whole. Upon the appointment of Paul Craig (who is not considered independent) the board resolved to create a Remuneration & Nomination Committee with only independent directors as members. For more information see page 45.
- B.2.4 Neither an external search consultancy nor open advertising was used in the appointment of a non-executive director (Paul Craig). Paul Craig was known to the board through his firm's investment in the business. The time and expense of an external search were felt to be unnecessary as his investment skills, knowledge and experience matched the criteria sought by the board. For more information see page 44.
- B.2.4 (AIC 9 and DTR 7.2.8AR) A description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives and Diversity Policy. The board has not adopted a formal diversity policy. The Remuneration & Nomination Committee will consider introducing a diversity policy at its first meeting. In the meantime, the board's approach is to appoint the best possible candidates, considered on merit and against objective criteria. For more information see page 45.
- B.6.1 (and AIC 7) A statement of how performance evaluation of the board, its committees and its directors has been conducted. As the Company had not completed a full year of activity, a board evaluation was not undertaken during the period.
- E.1.1 The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. As set out above, the Company did not have a senior independent director during the reporting year.

A copy of the AIC Code is publicly available at:
<https://www.theaic.co.uk/aic-code-of-corporate-governance-0>

A copy of the UK Corporate Governance Code 2016 is publicly available at:
<https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

Other key statements

The directors confirm that:

Going Concern

The Going Concern Statement is made on page 25.

Viability

The Viability Statement is made on page 25. Further details of the board's assessment of the viability of the Company are set out in Principal Risks and Uncertainties on pages 22-24 and in Accountability on pages 46-48.

Robust assessment of principal risks

The board has undertaken a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. See Accountability on pages 46-48 for further information on how this conclusion was determined.

Review of Risk Management and Internal Control

A continuing process for identifying, evaluating and managing the risks the Company faces has been established and the board has reviewed the effectiveness of the internal control systems. Further details are set out in the Accountability section on pages 46-48.

Continuing appointment of the Investment Adviser

The continuing appointment of the Investment Adviser on the terms agreed is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the Management Engagement Committee Report on page 53.

Continuing appointment of the Investment Manager

The continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the Management Engagement Committee Report on page 53.

Fair, balanced and understandable

The Annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. See the Audit Committee Report on pages 49-52 for further information on how this conclusion was reached.

Application of AIC Code Principles

Detailed disclosures for the application of certain AIC Code Principles and compliance with the appropriate UK Corporate Governance Code Provisions are set out elsewhere in this Corporate Governance Statement. In order to reduce clutter and boilerplate throughout the report, set out below is an overview of Impact Healthcare's application of the AIC Code Principles, showing where further information is available.

The AIC Code refers to "the Manager". In Impact Healthcare REIT's case, many of the Manager's tasks referred to in the Code are carried out by the Investment Adviser, not the Manager. The Manager's role is to perform the relevant regulatory functions as the Alternative Investment Fund Manager.

The board

1. The Chairman should be independent

The Company's Chairman, Rupert Barclay, was independent on appointment.

2. A majority of the board should be independent of the Manager

The board currently comprises five non-executive directors of which the Chairman, Rupert Barclay, alongside Rosemary Boot, David Brooks and Philip Hall are deemed to be independent of the Investment Adviser and Manager. Paul Craig, is independent of the Investment Adviser and Manager but is not considered to be independent because he is a representative of the Company's largest shareholder. See Biographies, pages 42-43.

3. Directors should be submitted for re-election at regular intervals

Each of the directors is subject to re-election at each AGM.

4. The board should have a policy on tenure

The Company's practice is to assume directors serve for a minimum three year term, subject to annual re-election by the shareholders.

5. There should be full disclosure of information about the board

Full information about the board is set out in the Annual report, on the Company website at <http://www.impactreit.uk> and through announcements, as appropriate.

6. The board should aim to have a balance of skills, experience, length of service and knowledge of the Company

As set out by the Chairman on page 34, the initial selection of the board aimed to provide a suitable range and depth of skills, experience and knowledge of the sector and related matters in order to get the Company and board off to a strong start.

7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors

As the Company had not completed a full year of activity, a board evaluation has yet to be conducted.

8. Directors' remuneration should reflect their duties, responsibilities and the value of their time spent

The Remuneration & Nomination Committee is responsible for reviewing the scale and structure of the directors' remuneration and sets remuneration appropriately. Remuneration details are set out on page 56.

9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the Annual report

The Remuneration & Nomination Committee, whose membership is composed solely of independent directors, is responsible for the appointment of new directors to the board.

10. Directors should be offered relevant training and induction

All the directors receive an induction on joining the board and further training as required.

11. The Chairman (and the board) should be brought into the process of a new launch at an early stage

Whenever the Company is planning an equity fundraising, the Chairman and the board will be involved and are integral to the process from an early stage.

Board Meetings and the Relationship with the Manager

12. Boards and Managers should operate in a supportive, co-operative and open environment

The Chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. Where appropriate, the Chairman will seek specific opinions utilising the non-executives' professional and general experience and capabilities. The non-executive directors provide objective, rigorous and constructive challenge to the Adviser.

13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues

The Chairman sets the agendas for the meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings. The board has a schedule of matters specifically reserved for its decision which include the approval of budgets, setting investment and performance objectives and policies, the approval of the Company's financial statements and published reports, the approval of equity and debt fundraising and the approval of all investments.

Application of AIC Code Principles

Prior to each of the regular quarterly meetings, the directors are provided with a comprehensive set of digital papers providing information on the Company's financial position and performance, proposed investments, and other matters as required. As the Company progresses, the agenda will evolve.

14. Boards should give sufficient attention to overall strategy

The board, together with the Adviser, regularly considers the overall strategy of the Company in light of its performance and the sector overall.

15. The board should regularly review both the performance of, and contractual arrangements with, the Manager

The performance of the Adviser and of the Manager are to be assessed on a regular basis by the Management Engagement Committee. As the Company has not completed a full year of activity, a formal evaluation has yet to be conducted.

16. The board should agree policies with the Manager covering key operational issues

The board is working with the Adviser towards an agreed set of policies covering key operational areas. The implementation of such policies will be subject to regular, independent review. Further details of the review of internal controls are set out in Accountability on pages 46-48.

17. The board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it

The board monitors the performance of the Company's share price both on an absolute level and relative to the prevailing Net Asset Value per ordinary share. The directors have at their disposal the authority to buy back or issue ordinary shares (within certain parameters) which would allow them to address anomalies in the performance of the ordinary shares, if necessary. The board works with the Company's Adviser and Broker to maintain regular contact with the investors and monitor investor sentiment.

18. The board should monitor and evaluate other service providers

The performance of the other service providers is assessed on a regular basis by the Management Engagement Committee (except for the independent auditor). As the Company has not completed a full year of activity, a formal evaluation of the other service providers has yet to be conducted, including that of the independent auditor by the Audit Committee.

Shareholder Communications

19. The board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders

Representatives of the Adviser have met regularly with shareholders since the flotation in March 2017, and have provided the board with feedback on shareholder views and concerns. Please see Relations with shareholders for further information on page 55.

The directors make themselves available at general meetings to address shareholder queries. The Annual General Meeting, in particular, provides the board with an important opportunity to make contact with shareholders, who are invited to meet the board following the formal business of the meeting.

20. The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the Manager is asked to act as spokesperson

All communications with shareholders are discussed and shared with the board. Any communications regarding major corporate issues are approved by the board prior to release.

21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares

The board places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Interim Report and Annual report, particularly the Strategic report. The Strategic report is set out on pages 1-31 and this provides information about the performance of the Company, the Investment Policy, strategy and the risks and uncertainties relating to the Company's future prospects.

This is supplemented by frequent notifications via a regulatory information service on developments such as asset acquisitions, and fundraising activities, and the Company's website at <http://www.impactreit.uk> is regularly updated.

Leadership

The board and its responsibilities

The directors are responsible for managing the business affairs of the Company in accordance with the Articles and the investment policy and have overall responsibility for the Company's activities including its strategy, investment activities and reviewing the performance of the portfolio.

The board has a clearly articulated set of matters which are specifically reserved to it and this is reviewed annually. These include:

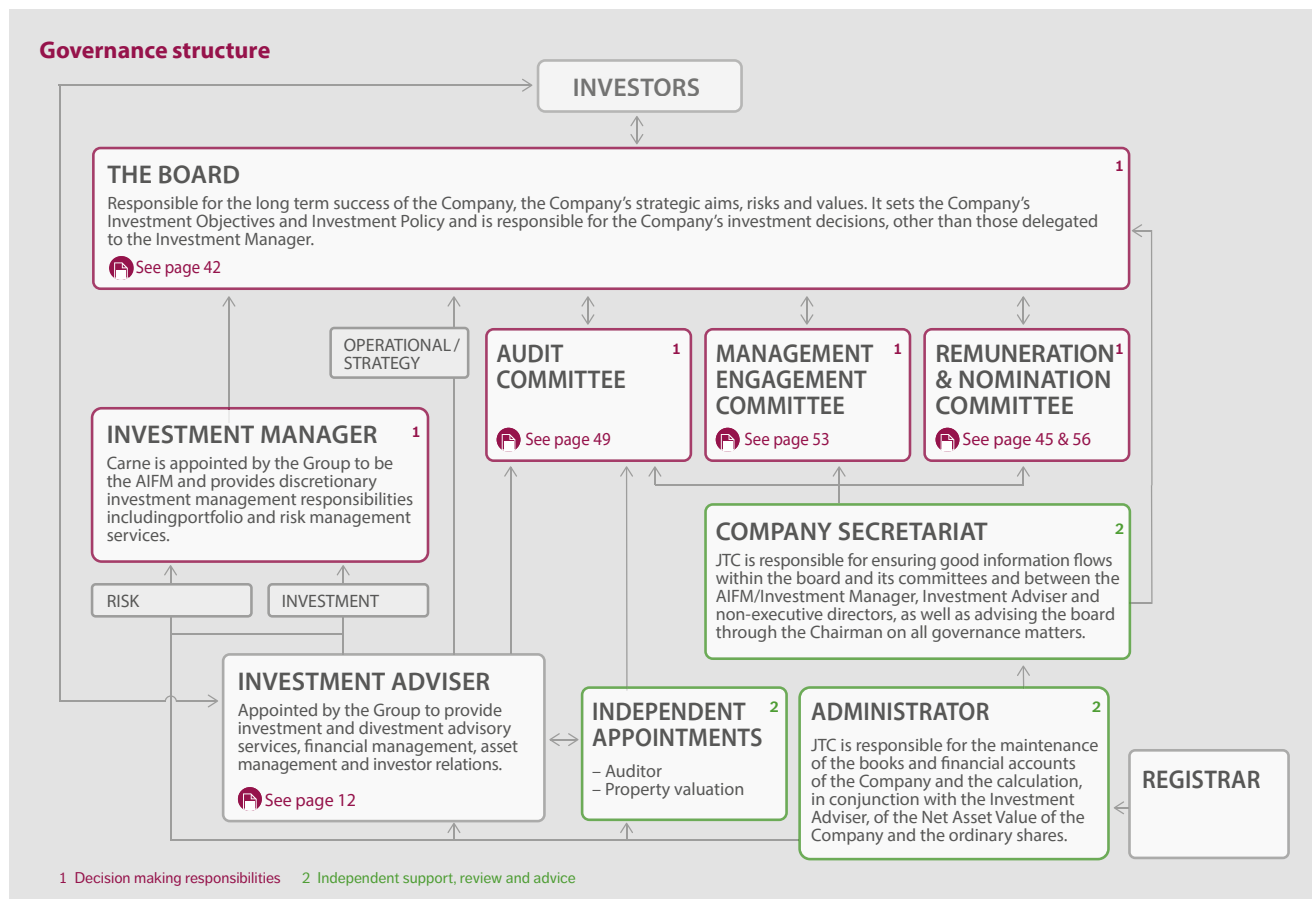
- Any decision likely to have a material impact on the Group from any perspective including, but not limited to, financial, operational, strategic or reputational.
- The strategic direction of the overall business, objectives, budgets and forecasts, levels of authority to approve expenditure, and any material changes to them.
- The commencement, material expansion, diversification or cessation of any of the Group's activities.
- The Group's regulatory, financial and material operational policies.

- Changes relating to the Group's capital, corporate, management or control structures.
- Material capital or operating expenditures, outside pre-determined tolerances or beyond the delegated authorities.
- Any material contract or joint venture and material arrangements with customers or suppliers.

We may delegate certain functions to other parties such as the board committees, the Investment Adviser, the Investment Manager, the Administrator, the Company Secretary and the Registrar; we have not delegated powers to our subsidiary companies. In particular, we have delegated responsibility for day-to-day management of the investments comprised in the Company's portfolio to the Investment Adviser. The directors have responsibility for exercising supervision of the Investment Adviser.

The full set of matters reserved to the board are available on our website at <http://www.impactreit.uk/documents>

The biographies of the members of the board and their committee memberships are set out on pages 42-43.



Leadership

Board committees

The board has created three standing committees: the Audit Committee, the Management Engagement Committee and the Remuneration & Nomination Committee. Details of these committees are set out in their reports, on pages 49, 53, and 45, respectively.

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Nomination Committee or a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form a Remuneration & Nomination Committee comprised of the independent directors, under the chairmanship of Rosemary Boot.

All of the independent directors serve on the other committees of the board, so the links and overlaps between the responsibilities of the committees are fully recognised and each committee has full knowledge of the business and deliberations of the other committees.

In addition, the Investment Manager, as AIFM, has created a Risk Committee, comprised of members of its own staff and that of the Investment Adviser for the purposes of monitoring the risk management framework of the Company. More details of this committee's activities are set out in Accountability on page 46.

The Terms of Reference of the committees are available on our website at <http://www.impactreit.uk/documents>

Alternative Investment Fund Manager Directive ("AIFMD")

The Company is an Alternative Investment Fund ("AIF") for the purposes of the AIFMD and related regimes in EEA member states.

The Company has registered with the UK Financial Conduct Authority and the Central Bank of Ireland, pursuant to Article 42 of AIFMD, to market the Shares in the UK and Ireland under their respective national private placement regimes.

Service and support

The Company has no employees and is externally managed by the Investment Adviser and Investment Manager (as the mandatory Alternative Investment Fund Manager), supported by the Administrator.

The Investment Adviser

The Company has appointed Impact Health Partners LLP to provide investment advice to the Company in respect of the assets of the Group and to provide the day-to-day management of those investments.

The Investment Manager

The Company has appointed Carne Global AIFM Solutions (C.I.) Limited ("Carne") to act as its AIFM. Carne is authorised by the Jersey Financial Services Commission to act as an AIFM on behalf of AIFs in accordance with the Financial Services (Jersey) Law 1998.

The Administrator

JTC (UK) Limited (JTC) has been appointed as Administrator and Company Secretary to the Company.

The Management Engagement Committee formally reviews the performance of the Investment Adviser, the Investment Manager and the Administrator each year and makes recommendations to the board as it considers appropriate. Further details of these reviews, and the relationships with the Investment Adviser, Investment Manager and Administrator are given in the Management Engagement Committee Report on page 53.

As Administrator, JTC on behalf of the directors, is responsible for the maintenance of the books and records, the management and financial accounts, and the management of all cash movements of the Company and the calculation, in conjunction with the Investment Adviser, of the Net Asset Value of the Company.

As Company Secretary, JTC is also responsible for the production of the Company's accounts, regulatory compliance and providing support to the board's corporate governance process and its continuing obligations. In addition, JTC is responsible for liaising with the Company, the Investment Manager, the Investment Adviser and the Registrar in relation to the payment of any dividends, as well as general secretarial functions required by the Companies Act.

The directors have access to the advice and services of the Administrator. Where necessary in carrying out their duties, the directors may seek independent professional advice and services at the expense of the Company.

Meetings and attendance

Member	Board	Audit Committee	Management Engagement Committee	Remuneration & Nomination Committee
Rupert Barclay (Chairman)	3/3	2/2	0/0	0/0
Rosemary Boot	3/3	2/2	0/0	0/0
David Brooks	3/3	2/2	0/0	0/0
Paul Craig	2/2*	n/a	n/a	n/a
Philip Hall	3/3	2/2	0/0	0/0

* Was not a director for the full term

The board meets formally on a quarterly basis and our attendance is shown in the table above. We also have ad hoc meetings which are generally called to approve specific announcements or transactions and frequently involve a quorate sub-committee of the board, which is appointed as necessary. The table above gives the names of all of the directors who served since the IPO and shows each individual director's attendance at the scheduled board and committee meetings for which they were eligible to attend during the year.

JTC attend all our meetings as Secretary to the board. In addition, we invite representatives of the Investment Adviser, the Investment Manager, our external auditor and other advisers to attend as required.

The board agenda

At our quarterly meetings, the board follows a formal agenda. This agenda generally includes, amongst other things:

- The Investment Adviser's report for the period, including strategic performance and acquisitions, a review of the performance of the investments, operator performance and market conditions.
- The AIFM report for the period, including discussion of risk.
- Financial results against budget and cash flow forecasts, including dividends declared and forecast.
- Reports and updates on shareholder and investor communications.
- The Corporate Governance and Secretary's Report, with a review of policies and procedures, a compliance report and an update on legislative/regulatory obligations as appropriate.
- Recommendations and updates from the board committees as appropriate.

Key activities of the board during 2017

- The primary focus at regular board meetings has been on delivering the strategy and monitoring performance against our strategic objectives (see the Strategic report on pages 1-31 for more details). This included:
 - Considering our capital structure.
 - Discussing and approving our second portfolio acquisition, subject to Care Quality Commission approval. Part of the benefit of this acquisition is an increase in tenant diversity.
 - Raising additional funds through a placing in November 2017.
- Driving the asset management programme through the approval of three significant extensions of capacity, whilst ensuring that the hurdle rates of return meet our investment criteria.
- Strengthening the board's capabilities with the appointment of Paul Craig.
- Forming the Remuneration & Nomination Committee, chaired by Rosemary Boot.

Board of directors



Rupert Barclay FCA, Chairman

Independent on appointment,
aged 61

Appointed: 16 January 2017, length of
service 11 months

Committees: Management Engagement
(Chair), Audit, Remuneration & Nomination

Rupert has a range of experience serving as chairman, chairman of the audit committee and as non-executive director of listed and quoted companies including Sanditon Investment Trust plc, (where he currently serves as Chairman), Lowland Investment Company plc (where he was a director and chairman of the audit committee and Dimension Data plc (where he was the senior independent director) and Instinet, Inc.

He has an MA in Classics from Cambridge, an MBA with Distinction from INSEAD and is a fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Sanditon Investment Trust plc, 2014-present. Chairman
- Cairneagle Associates LLP, 2004-present. Managing partner
- Foundations Inn plc, 2017-present
- Royal Collections Trust, 2014-present, Audit Committee



Rosemary Boot

Independent non-executive director,
aged 55

Appointed: 16 January 2017, length of
service 11 months

Committees: Remuneration & Nomination
(Chair), Audit, Management Engagement

Rosemary served as the chief financial officer of Future Cities Catapult, one of a network of technology and innovation centres established by the UK Government. She has also previously served as an executive director and strategy adviser at a large housing association, Circle Housing Group, and as group finance director of the Carbon Trust, an independent company set up in 2001 to work with business and the public sector to accelerate the move to a sustainable, low carbon economy.

Previously, Rosemary worked for 16 years as an investment banker at UBS Warburg, primarily advising large listed UK companies on corporate finance matters.

Other current directorships/ memberships

- Southern Water Services Limited, 2015-present. Independent NED and Chair of Audit & Risk Committee
- The Green Alliance, 2014-present. Trustee and Member of Finance & Management Committee
- The Conservatoire for Dance and Drama 2011-present. Independent Governor and Member of Finance Committee



David Brooks FCA

Independent non-executive director,
aged 70

Appointed: 16 January 2017, length of
service 11 months

Committees: Audit (Chair), Management
Engagement, Remuneration & Nomination

David worked for Grant Thornton (and its predecessor firms) from 1972, when he joined as an auditor, a partner from 1973 to 2010 when he retired as national Head of M&A. He previously served as Head of London Lead Advisory and Joint Head of National Corporate Finance. During his career at Grant Thornton, David advised on over 100 UK mid-market M&A transactions and since 2000 specialised in the healthcare and food sectors.

He serves as a non-executive on a number of private company boards, including Wealmoor Limited and Import Services Limited. He previously served on the board of Balhousie Care Group Ltd.

He qualified as a chartered accountant in 1972 and is a fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Import Services Limited, 2015-present, non-executive director
- Wealmoor Limited, 2013-present, non-executive director
- Lampida Limited, 2010-present, owner and director

Investment Adviser



Paul Craig

Non-executive director, aged 48
Appointed: 30 June 2017, length of service six months

Paul is a portfolio manager at Old Mutual Global Investors. He has over 20 years of investment experience, including 10 years at Exeter Investment Group, six years at New Star Asset Management as a director of the asset management subsidiary, and six years as a director within the multi-manager investment team at Henderson Global Investors. Over the past 18 years, Paul's focus has been on multi-manager products, with an emphasis on closed-ended funds.

Paul is currently a non-executive director of The Diverse Income Trust plc, Ground Rents Income Fund plc and Hadrian's Wall Secured Investments Limited, and is an associate of the UK Society for Investment Professionals. Old Mutual Global Investors has an interest in the Company through funds managed by Paul.

Other current directorships/ memberships

- The Diverse Income Trust plc, 2011-present, director
- Ground Rents Income Fund plc, 2012-present, director
- Hadrian's Wall Secured Investments Limited, 2016-present, director



Philip Hall

Independent non-executive director, aged 63
Appointed: 16 January 2017, length of service 11 months

Committees: Audit, Management Engagement, Remuneration & Nomination

Philip is a chartered surveyor with over 25 years of experience in the healthcare sector in the UK and internationally. He is currently a director of Deben Healthcare Consultancy and a senior adviser to Jones Lang LaSalle ("JLL"), having stepped down from his role as chairman for healthcare at JLL in December 2017. He has advised on primary healthcare premises, residential care and nursing homes (including those for learning disabilities/mental health clients), hospitals, extra care, domiciliary care and dental practices/dental laboratories. He has also advised more broadly in the social care sector, including on children's homes and day nurseries. In particular, he has advised on the restructuring of Southern Cross and its legacy and was a member of its landlord committee which steered the wind up of Southern Cross and the transfer of its residents and staff to new operators. He has also advised on a number of lease and loan restructuring transactions, capital expenditure programmes and turnaround strategies.

Before joining JLL, Philip was a founding shareholder and managing director of Taylors Business Surveyors and Valuers Ltd, a chartered surveying company, which he sold in 2005. In addition, he is the author of *"The Valuation of Care Homes, Valuation: Principles into Practice"*, which was published in 2008. Philip is a member of the Royal Institution of Chartered Surveyors.

Other current directorships/ memberships

- Deben Healthcare Consultancy, 2017-present, director

Andrew Cowley MA (Oxon), Managing Partner

Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000.

He was a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports. Before this, he was a Managing Director at Allianz, responsible for investments in alternative assets; a director of Kleinwort Benson and chairman of Dresdner Kleinwort Benson's business in Russia; he began his career at SG Warburg.

Andrew has served on company boards, including various international airports, Moto Holdings, Creative Broadcast Services and as chairman of Halterm Container Terminal in Canada.

Mahesh Patel ACA, Managing Partner

Mahesh is a qualified accountant who has over 30 years' experience in healthcare-related industries and assets, including positions in finance.

Prior to 2006, he built up and then sold three healthcare-related businesses, Highclear and Kingsclear (focused on residential care for the elderly) and a supported living business, Independent Living. In addition he is also a co-founder and director of Precision Dental, which invests in dental laboratories.

Mahesh has helped found and grow the residential healthcare for the elderly groups Minster and Croftwood, along with Pathways Care, which provides specialist support for people with various disabilities.

David Yaldron FCA, Finance Director

David has over 20 years' experience, having held senior financial roles in real estate and investment companies.

From 2012, David was a director at Grosvenor, Britain & Ireland responsible for projects and new investments, eventually becoming the senior director responsible for all investments, developments and strategic land activities outside London.

Prior to Grosvenor, David worked for Europa Capital, managing its corporate investments and divestments across Europe and before this was Head of Investment Monitoring at Collier Capital.

David trained and spent the first 10 years of his career at KPMG, working in the Transaction Services team.

Effectiveness

Process used in relation to initial board appointments

The independent directors and the Chairman were all appointed prior to the flotation of the Company and were selected for their experience and diverse capabilities. They are all offering themselves for election at our first AGM.

At our first board meeting, and prior to the establishment of the Remuneration & Nomination Committee, the board discussed its diversity and experience. The board deemed its experience to be strong in healthcare, investment trusts, corporate finance, strategy and real estate, but felt the Company should benefit as soon as possible from the experience of an established investment manager, to support the board and challenge the Investment Adviser from a different perspective.

As the board felt that this enhancement to the board's capabilities should be achieved quickly, it did not consider it appropriate to incur potential delay, and additional cost, by appointing an external search consultancy. Rupert Barclay interviewed Paul Craig, who manages funds which, together, are owned by the largest shareholder in the Company, Old Mutual Global Investors. Rosemary Boot had satisfactory discussions with the Company's broker, Winterflood, regarding Paul's experience as a director of other companies in which he had invested. As a consequence, the board approved Paul's appointment as a Non-executive director. Paul will also offer himself for election at our first AGM.

Board evaluation

As the Company has not yet completed a full cycle of activity, a board evaluation was not undertaken during the period.

Annual re-election

The directors are all standing for election at the AGM. Our view is that each of the directors standing for election should be appointed, as we believe that they have the skills required for the board to discharge its responsibilities, as outlined in each of their biographies set out on pages 42-43, have demonstrated those skills during our first year of operation, and have the time and commitment to contribute to the success of the Company.

Remuneration & Nomination Committee report



The creation of the committee and approval of its Terms of Reference took place in October 2017. We are following with interest the consultation this year on proposed significant changes to the UK Corporate Governance Code, along with the Government's planned legislation. We will take these into account as appropriate in the committee's work in the future.

Committee membership

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Nomination Committee or a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form the Remuneration & Nomination Committee, comprised of the independent directors.

The Remuneration & Nomination Committee membership is:

Rosemary Boot (Chairman)

Rupert Barclay, David Brooks and Phil Hall

The Remuneration & Nomination Committee will meet as and when required but will meet formally at least once a year. For the period under review, we have not yet held a meeting of the Remuneration & Nomination Committee because the Company has not completed a full annual cycle.

JTC will attend all our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Advisers to attend as required.

Diversity

The board recognises the benefits that diversity brings. Our approach is to appoint the best possible candidate, considered on merit and against objective criteria (and in accordance with the Equality Act 2010), rather than to set quotas for a particular aspect that may deflect from achieving this fundamental target every time. At the date of this report, 20% of the board was female. We will consider introducing a diversity policy at our first meeting.

Role

The committee has two roles with various functions, the most important of which are:

Remuneration

- Determining, and agreeing with the board, the framework and broad policy for the remuneration of the board and to review the ongoing appropriateness and relevance of the remuneration policy to meet the needs of the Company. It will take into account all factors which it deems necessary including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and their associated recommendations and guidance.
- Agreeing the policy for the authorisation of claims for expenses by the directors.

Nomination

- Reviewing annually the structure, size and composition (including the skills, knowledge and experience) required of the board and making recommendations to the board with regard to any necessary changes.
- Considering the succession planning and replenishment of directors as the board and Company progresses, identifying and nominating candidates to fill board vacancies as and when they arise, and taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the board for the future.
- Reviewing annually the time required from the directors and using performance evaluation to assess whether the directors are spending enough time on their duties.
- Considering the recommendations for re-election on retirement, and also the re-appointment of any director at the conclusion of his/her specified term of office.
- Taking into account all factors which it deems necessary to fulfil this role, including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and any associated recommendations and guidance.

The full Terms of Reference of the Remuneration & Nomination Committee are available on our website at <http://www.impactreit.uk/documents>.

Rosemary Boot Committee Chair

21 March 2018

Accountability

Introduction

The responsibilities of the board for audit, reporting, risk management and internal control are covered in this section of the Corporate Governance Statement. This has been presented in two parts. The first part concerns the elements that the board and directors own collectively. The second part is the Audit Committee Report and covers elements that have been delegated, especially on audit and key financial judgements.

Approach to risk management and internal control

The directors acknowledge their responsibility for maintaining the Company's system of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks that are inherent to the Company, and to manage rather than eliminate the risk of failure to achieve business objectives. As such, it can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As part of each board meeting during the period, the directors reviewed the financial position of the Company and assessed any risks in relation to the Company's business model and the Group's future performance, liquidity and solvency.

To facilitate this process the Investment Adviser produced financial reports, which included the latest management accounts, a review and report on the Company's financial model, substantiation of any dividend payments and a general update on the financial health of the Company.

A review of the principal business risks of the Company is performed annually. The Company's principal risks can be found on pages 22-24 of the Annual report.

The board considered whether the Company should employ an internal audit function during 2017 and concluded that, due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by the Administrator and the Manager, an internal audit function was not necessary.

As part of the internal risk review, we identified that whilst the Administrator has its own internal audit performed on an annual basis, from which the Company reviews any findings and takes particular comfort, the Company should also independently assess whether these controls are sufficient and if they operate effectively.

The Risk Committee

A combination of the risk systems of the Manager's, acting in its capacity as AIFM, and the Investment Adviser's risk systems are used to identify, monitor, measure and manage portfolio risk within the Company. A Risk Committee ("Committee") has been established by the Manager for the purposes of monitoring the risk management framework of the Company. The Risk Committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at a Company and Group level.

The committee is appointed by, and reports to, the board of the Manager and from the Manager to the board of the Company. The membership of the committee is drawn from the Manager and Investment Adviser.

Committee activities

The committee ensures that Market Risk, Liquidity Risk, Counterparty Risk, Credit Risk, Regulatory Risk and Operational Risk are identified, measured, monitored and managed in line with the Company's Risk Management Framework and consistent with the Company's stated strategy and risk policies.

The committee is a key part of the control and governance framework for the Manager, ensuring it establishes, oversees and monitors appropriate management information, risk controls, risk management practices, processes and control framework within the agreed business risk appetite. This provides the effective oversight of risk in respect of the Company, to which it acts as Manager, whilst fulfilling the requirements of the Alternative Investment Fund Managers Directive ("AIFMD").

Operational risks

The Risk Committee identifies and logs key investment and operational risks of the Company in a Risk Register and measures the likelihood and impact of each risk. Operational risks are reviewed on a regular basis and any issues arising are investigated and appropriate remedies are put in place.

Oversight and reporting

The Risk Committee receives regular reports from the Company's service providers, including the Investment Adviser and the Administrator. Examples of such reports include:

- A portfolio risk overview is produced quarterly by the Investment Adviser which includes a number of measurements and analytics of relevance to the strategy employed in the Company.
- A quarterly operational risk report which provides an overview of the current operational risk profile of the Company and the effectiveness of related remedial activities.
- The Administrator provides quarterly NAV reporting for the Company.
- The Administrator provides input into the quarterly risk review matrix/reporting.
- The Administrator as Company Secretary provides a quarterly secretary's report covering compliance and regulatory reporting.

The Risk Committee meets on a quarterly basis to review the reporting received from the service providers to the Company to ensure that risk issues are identified and documented, appropriate controls are in place to mitigate risks, and action is being taken against risks outside agreed risk tolerances. The committee addresses any risk-related issues and escalates to the board of the Manager and to the Company board, if necessary.

The Manager presents a quarterly risk report to the Company board. The report summarises the findings of the Manager as a consequence of its risk monitoring function, including details of any significant incidents.

Stress tests, scenario analysis and robust assessment of principal risks

The Risk Committee conducts periodic stress tests and scenario analysis to assess the vulnerability of the portfolio to extreme or unusual market events or conditions. The limits and restrictions are monitored by both the Investment Adviser and the Manager. The Manager also monitors to see if limit levels are being approached and ensures that the Investment Adviser has appropriate procedures in place to ensure that limits are not breached. Appropriate escalation procedures are in place to ensure that any breach is investigated and, if necessary, reported to the Company's board.

During the period, the Risk Committee, on behalf of the board, also conducted a robust assessment of the principal risks to the Company's business model, future prospects, solvency and liquidity. This process incorporated information from the periodic

stress tests and scenario analyses conducted during the year and involved the appraisal of the impacts and likelihoods of the risks before and after mitigations were applied. An evaluation of the residual risk indicates its materiality for the purposes of the necessary disclosures in the annual report. This assessment forms the basis of the statement made by the board with regard to this topic on page 34. Our principal risks and uncertainties are set out on pages 22-24.

Internal Control processes

The Group's internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments. Changes to internal controls, or controls to respond to changing risks identified, are addressed by the Risk Committee with appropriate escalation to the board as required.

The directors along with the Investment Adviser and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of internal controls. This covers capital expenditure approval and authorisation of capital funding, Investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and Dividend authorisation, equity and debt approval and formal communications with investors.

These have been presented and approved in the form of a controls matrix and incorporates authorisation by the board or delegated responsibility to individual board members or the Investment Adviser.

The board receives and considers quarterly reports from the Investment Adviser, giving full details of the portfolio and all transactions and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and in compliance with applicable rules and regulations.

The board also reviews and discusses the formal annual risk assessment conducted by the Risk Committee, led by the Investment Manager, with quarterly updates and assessments against these risks.

The board confirms that, in accordance with the AIC Code and Guide, it has established a continuing process for identifying, evaluating and managing the risks the Company faces and has reviewed the effectiveness of the internal control systems.

Accountability

Financial reporting

The Group, with the support of its Investment Adviser and Administrator, has internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. Internal management reporting and external statutory reporting timetables and delivery requirements are being established and documented. Control of these is maintained by the Administrator and communicated regularly.

The arrangements include procedures implemented by the Administrator to ensure the maintenance of records which accurately and fairly reflect transactions. These are reviewed and commented on by the Investment Adviser to confirm the appropriate treatment.

Where new reporting standards or financial reporting approaches are being adopted, either as a result of changing regulation or as a result of new contractual arrangements, the Administrator, in collaboration with the investment advisor, prepares an assessment of this treatment and discusses this with the Audit committee. Where required, third party advisers are consulted. This enables the preparation of financial statements in accordance with International Financial Reporting Standards (as adopted by the EU) or FRS 102, as appropriate, with reasonable assurance and requiring reported data to be reviewed and reconciled with appropriate monitoring internally and by the Audit Committee.

Ongoing financial performance is monitored through regular reporting to the Investment Adviser by the Administrator. Capital investment and all revenue expenditure is regulated by a budgetary process and authorisation levels, with post-investment and period end reviews as required. A budget is prepared by the Investment Adviser, approved by the board and monitored and reported against quarterly with the board and more regularly with delegated responsibility with individual directors. Expenditure and investment is then tracked by the Administrator against these budgets.

Review of risk management and internal control

The board conducted an annual detailed review of risk management and internal control. This was facilitated by a report with quarterly updates from the Risk Committee, augmented by JTC. JTC also provided a report on its internal controls in accordance with ISAE 3402, with independent assurance from PricewaterhouseCoopers.

Audit Committee report



Since our IPO in March 2017, the Audit Committee has overseen the Company's first cycle of financial reporting and addressed areas of compliance and legislation within the committee's areas of responsibility.

Key activities relating to the 2017 financial period

- Recommended to the board that the Annual report and accounts for 2017, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Reviewed the Interim Report 2017 and recommended the same to the board.
- Monitored the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewed any significant financial reporting judgements contained in them.
- Ensured the processes and controls expected from our operating structure are embedded and working effectively, with appropriate control and independence on decision making activities.
- Appointed the external auditor after a competitive tender process.
- Reviewed and monitored the independence and objectivity of the auditor and the effectiveness of the audit process.
- Reviewed and considered the basis of the going concern and viability statement made by the directors; see page 25.
- Developed an approach on the engagement of the auditor to supply non-audit services, including the safeguarding of the auditor's objectivity and independence.
- Ensured the appropriate use of Accounting policies in the newly incorporated business with particular attention on IFRS 13 and the valuation of investment properties as well as IAS 17 and recognition of lease income.

The main matters discussed by the audit committee during the year were:

- Appointment of external auditors
- Interim report 2017 including public statement
- Audit planning for 31 December 2017
 - Materiality levels
 - Assessment of audit risks
 - Audit strategy, scope and objectives
 - Interaction with third parties on the valuation and ownership of assets and REIT compliance
 - Fair value accounting
- Accounting policies including acquisition accounting
- Scope and independence of the auditors

Committee membership

David Brooks (Chairman)*

Rupert Barclay, Rosemary Boot and Phil Hall

Rupert, Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy or chief financial officer experience, in addition to our various board directorships. Both Rupert and I are chartered accountants.

The board has also concluded that the audit committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

Relevant experience and competence

David Brooks FCA: healthcare sector experience; senior management positions including non-executive board membership; M&A, corporate finance, accountancy and audit

Rupert Barclay FCA: senior management positions in listed and private companies, including executive and non-executive board membership; M&A and strategy

Rosemary Boot: social care and housing sectors; senior management positions in private companies, executive and non-executive board membership; M&A, investment banking and strategy

Philip Hall: healthcare, social care and real estate sectors; senior executive positions in a property company; surveying and valuation, and capex, turnaround and restructuring programmes

Audit Committee report

Role

The Audit Committee's role is to oversee the Company's financial reporting process, the valuation of the property portfolio, the Group's compliance with accepted accounting standards and other regulatory requirements as well as the activities of the auditors.

Terms of reference

We operate within defined terms of reference, which are available on our website at <http://www.impactreit.uk/documents>. The terms of reference were agreed and amended during the period to reflect the changes made to the AIC Code and Guide, legislation and best practice.

Meetings

We met twice during 2017 following the Company's corporate calendar, which ensured that the meetings were aligned to the Company's financial reporting timetable. The Company Secretary ensured that the meetings were of sufficient length to allow the committee to consider all the matters of importance and the committee was satisfied that it received full information in a timely manner to allow it to fulfil its obligations. These meetings were attended by the committee members, as well as representatives of the Investment Adviser (Impact Health Partners LLP), the Company Secretary (JTC (UK) Limited) and the auditor (BDO LLP).

I, as the committee Chairman, had regular meetings with the Company Secretary, the Finance Director of the Investment Adviser and the external auditors. Additional Audit Committee meetings are convened by the Company Secretary at my request when necessary.

In addition, as Chair of the Audit Committee, I held a number of preparatory discussions with the Finance Director of the Investment Adviser and the external auditors to ensure they delivered in line with the scope of services and were well placed to hold a constructive discussion with the Audit Committee.

Meeting attendance register

Member	Meetings eligible to attend	Meetings attended
David Brooks (Chairman)	2	2
Rupert Barclay	2	2
Rosemary Boot	2	2
Phil Hall	2	2

External auditor

During the period we considered at length the appointment, compensation, performance and independence of the Company's external auditor, BDO LLP ("BDO").

BDO was appointed as the Company's auditor following a formal tender as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton.

Richard Levy has been the lead audit partner since BDO's appointment. During the period we met key members of the audit team and BDO formally confirmed its independence as part of the annual reporting process. We liaise regularly with the lead audit partner to discuss any issues arising from the audit as well as its cost-effectiveness and actively challenge and negotiate the fees payable to the auditor.

We met with the auditor before the interim and annual results were prepared, to plan and discuss the scope of the audit or review as appropriate, to ensure its rigour. We then met with the auditor to discuss the details of the external audit and interim review and to consider and evaluate any findings in depth.

In assessing the performance of the auditor, we considered both the qualifications and expertise of the team proposed by BDO as well as the quality of the work produced and whether it was carried out on time and in accordance with the agreed audit plan.

We considered that the Audit team assigned to the Company by BDO had a good understanding of the Company's business. This enabled it to produce a detailed, high quality in-depth audit and permitted the team to scrutinise and challenge the Company's financial procedures and significant judgements.

The Audit Committee has recommended that a resolution to appoint BDO is proposed to shareholders at the next AGM.

Approach to non-audit work

We believe that, in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work.

In developing this approach, we have considered the Financial Reporting Council's Ethical Standard. We have reviewed the terms under which BDO is able to provide non-audit services and are satisfied with the measures put in place by BDO to preserve the Audit team's independence and to protect the confidentiality of the Company's business. Most notably, corporate due diligence is provided by separate teams within BDO and all documents and other information relating to the Company is securely stored and protected.

Of the £79,000 non-audit fees paid to BDO, the expenditure that was authorised in the period is outlined in the table below.

Work undertaken	Rationale for using the external auditor	Fee £
Reporting accountant on the Company's initial public offerings	Detailed knowledge and understanding of the business and the requirements of the exercise, having acted as reporting accountant on previous equity fundraisings for the Company. Low risk of self-interest and self-review threat, as the work is not used in the audit of the financial statements.	£60,000
Agreed upon procedures relating to 30 June 2017 interim accounts	Appointed to perform certain agreed upon procedures in relation to the 30 June 2017 interim accounts and report findings to the board.	£10,500
Audit of 30 April 2017 initial accounts of parent company	To perform the audit of the accounts of the parent company at 30 April 2017.	£8,500

The board has accepted our proposals relating to the provision of non-audit services by the auditor. We are therefore satisfied that the Audit is independent, objective and effective.

Total audit fees for the period were £73,000 and non-audit fees were £79,000. Non-audit fees as a percentage of audit fees are 108% as a result of the reporting accountants role. This is expected to reduce comfortably below 70% over a three year period.

Financial reporting and significant judgements

We monitored the integrity of the financial information published in the interim and annual financial statements and considered whether the Adviser had made suitable and appropriate estimates and judgements in respect of areas which could have a material impact on the financial statements. We sought support from the external auditor to assess these significant judgements. We also considered the processes undertaken by the Adviser to ensure that the financial statements were fair, balanced and understandable.

The Adviser and the auditor updated us on changes to accounting policies, legislation and best practice and areas of significant judgement by the Adviser. They paid particular attention to transactions which they deemed important due to size or complexity. The main areas where a significant judgement was required included the assessment over fair values of investment property, business combinations, and operating lease contracts.

Valuation of property portfolio

The property portfolio was valued by Cushman & Wakefield (CW) bi-annually in 2017, this will move to quarterly valuation in 2018.

Following production of the draft valuations by CW, the auditor met with CW to discuss and where necessary challenge the property valuations.

The Audit Committee discussed at length the approach undertaken by the auditors to gain comfort over the valuation of the assets, the methodology applied by them and the level of investigation undertaken to reach the conclusion they were satisfied with the valuation as reported. We also reviewed the assumptions underlying the property valuations and discussed these with the Adviser, and concluded that the valuation was appropriate.

The board received a copy of the valuation once it had been tested by the Adviser and after the auditor met with the Valuer.

The Company had property assets of £156.2 million at 31 December 2017, as detailed on the Group Statement of Financial Position. As explained in note 11 to the financial statements, CW independently valued the properties in accordance with IAS 40: Investment Property. The total portfolio valuation at the year end was £156.2 million.

We discussed with the auditors what could be improved in the approach undertaken in relation to the valuation. It was agreed that the move to quarterly valuations from the beginning of 2018 will improve the overall timeliness of reporting any changes in asset values. It was further agreed that there should be an established process to provide the valuer with the latest tenant trading information up to the date the valuation is finalised. This will provide comfort in future to the board, the audit committee and the auditors that the valuation is accurate and reflective of the period to which it relates. It was confirmed that this was undertaken for the current valuation but the process and approach could have been clearer.

Business combinations

At the time of acquiring a subsidiary that owns investment properties, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. Where the acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. All acquisitions in the period have been judged not to be acquisitions of a business.

Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

Audit Committee report

Fair, balanced and understandable statements

The production and audit of the Company's Annual report and accounts is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board requested that the Audit Committee advise on whether we considered that the Annual report fulfilled these requirements.

In outlining our advice, we considered the detailed reviews undertaken at various stages of the production process by the Investment Adviser, Administrator, auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

We then discussed with the Investment Adviser and Administrator the process of how this was put together and received a series of drafts of the Company's Annual report and accounts. These were scrutinised and discussed thoroughly at two separate Audit Committee meetings.

Additional comfort was also sought from the Investment Adviser and Administrator in relation to the conclusion reached by the board.

As a result of the work performed, we have concluded and reported to the board that the Annual report and accounts for the period ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The board's conclusions in this respect are set out on page 36.

Effectiveness of the committee

An evaluation of the committee's effectiveness has not been undertaken as the Company has not undertaken a full annual cycle.

David Brooks Chairman of the Audit Committee

21 March 2018

Management Engagement Committee report



Introduction

We have set up a Management Engagement Committee with a membership comprised of all the independent directors of the Company: Rosemary Boot, David Brooks, Philip Hall and me, Rupert Barclay (Chair).

The Management Engagement Committee will meet as and when required but formally at least once a year. For the period under review, we have not reviewed the performance of the key service providers nor yet held a meeting of the Management Engagement Committee because the Company has not completed a full annual cycle.

JTC (UK) Limited will attend our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Adviser, the Investment Manager and our external auditor to attend as required.

Role

The committee has several functions, the most important of which are:

- To review annually the compliance by the Investment Adviser with the Company's investment policy, as established by the board, when sourcing potential investment opportunities and with the investment advisory agreement entered into between the Company and the Investment Adviser.
- To review annually the compliance by the Investment Adviser with the Company's investment policy, as established by the board, and with the investment management agreement entered into between the Company and the Investment Adviser.
- To review annually the performance of any other key service providers to the Company.

The full Terms of Reference of the Management Engagement Committee are available on our website at:
<http://www.impactreit.uk/documents>

Investment Adviser

The Company has appointed Impact Health Partners LLP as Investment Adviser. Under the terms of the Investment Advisory Agreement, the Investment Adviser provides certain advisory services to the Group including:

- ongoing monitoring of the Portfolio and asset management; and
- sourcing potential opportunities in which the Company may invest.

Accordingly, under the terms of the Investment Advisory Agreement, the Investment Adviser is entitled to an advisory fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The advisory fee is 1% per annum (plus VAT) of the Company's Net Asset Value up to £500 million and 0.70% per annum (plus VAT) thereafter, payable quarterly.

In addition, the Investment Advisory Agreement imposes certain restrictions on the Investment Adviser and the Associates from acquiring, developing, leasing or operating competing businesses, and:

- (a) grants the Group a right of pre-emption in respect of any investment opportunities within the Company's investment policy of which the Investment Adviser or its associates become aware;
- (b) grants the Company the right to terminate the agreement upon the failure of any tenant, in which any principal of the Investment Adviser (from time to time) has a beneficial interest, to pay rent or any other sums due in excess of £50,000 under the leases or upon the winding up or liquidation of any tenant, in which any principal of the Investment Adviser or any of the Associates (from time to time) has a beneficial interest;
- (c) grants the Company the right to terminate the agreement if the Financial Report provided to the Company by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive financial reports or in any two financial reports in any 12 month period;
- (d) grants the Company the right to seek advice from a third party property adviser in circumstances where the Investment Adviser is conflicted; and
- (e) prohibits the Investment Adviser from taking any decision, or making any recommendation to the board or the Investment Manager relating to decisions on enforcement of the Group's

Management Engagement Committee report

rights on certain covenant breaches by a tenant, in which any principal of the Investment Adviser or any of the Associates (from time to time) has a beneficial interest.

The Investment Advisory Agreement may be terminated by either party on 12 months' notice, such notice not to be served before the fourth anniversary of IPO, and may be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

Investment Manager

In accordance with the terms of the Investment Management Agreement and the AIFM Directive, the Company is required to appoint an AFIM. The Company's Investment Manager is Carne Global AIFM Solutions (C.I.) Limited. The Investment Manager is authorised and regulated by the Jersey Financial Services Commission.

The Investment Manager has been appointed as a non-EU AIFM to the Company, to provide portfolio and risk management services. In this role it provides the customary services of discretionary investment management. Under the terms of the Investment Management Agreement, the Investment Manager's performance will, at all times, be subject to the supervision of the board.

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to an annual management fee of £95,000 together with reimbursement of all costs and expenses properly incurred by it in the performance of its duties.

The Investment Management Agreement may be terminated by either party on six months' notice, and may be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

Administrator and Company Secretary

The Company has appointed JTC (UK) Limited ("JTC") as Administrator and Company Secretary.

Under the terms of the Administration and Company Secretarial Services Agreement, JTC as Administrator is entitled to:

- (i) a set-up fee on a time cost basis capped at £10,000 in relation to the IPO and £4,000 per new entity incorporated;
- (ii) an annual fee in respect of the valuation and accounting services it will provide of £50,000; and
- (iii) a fee equal to 0.05% of NAV to the extent that such NAV exceeds £200 million.

As Company Secretary, JTC is also entitled to receive an annual fee of £50,000.

The Administration and Company Secretarial Services Agreement is in force and can be terminated by either party, either (i) in accordance with the agreement (e.g. in the case of a material breach of agreement or of the insolvency of a party, whereby the agreement may be terminated immediately upon notice), or (ii) provided written notice is given to the other party at least three months prior to termination.

Rupert Barclay Committee Chair
21 March 2018

Relations with shareholders

The primary objectives of our investor relations activities are to:

- Broaden and deepen understanding of the business, the expertise of portfolio management and growth opportunities.
- Increase awareness of the Company's investment case.
- Better define our market and differentiate us from our peers.
- Strengthen the relationships of the Company with the investment community.
- Achieve a strong, supportive shareholder base with on-going investment appetite.
- Ensure the board has a clear and sound understanding of the market's view of Impact Healthcare REIT.

We are committed to fostering and maintaining strong relationships with the Company's shareholders and recognise the importance of good communications. In 2017 the board continued to expand the Company's communications policy with current and future shareholders.

Mahesh Patel, Andrew Cowley and David Yaldron, from our Investment Advisers, are the Company's principal spokesmen with the Company's shareholders, the press, analysts, investors, debt finance providers and other stakeholders. Rupert Barclay, our Chairman, is also available to speak to any shareholders to discuss any matters relating to the Company. Since the year end the board has also appointed David Brooks as senior independent director and he is available to speak to shareholders.

The Investment Adviser provides the board with regular Investor Relations updates, which include major press coverage, analyst reports and shareholder feedback. In addition, Paul Craig sits on the board and brings an institutional investor's viewpoint as he represents the largest shareholder of the Company.

During the year, the Investment Adviser, working together with the Company's corporate broker and communications adviser, met with institutional investors, analysts and the financial press to update them on the Company's progress since its IPO. The Investment Adviser met again with institutional investors during the roadshow for the secondary issue of new shares in November 2017. The Adviser reports at each board meeting on investor relations and provides feedback on meetings with major shareholders and analysts. The board meets periodically, on a formal and informal basis, with the Company's corporate broker and other professional advisers in order to better understand the views of major shareholders on the Company.

AGM

Shareholders are encouraged to attend and vote at the Company's general meetings so they can discuss governance and strategy with the board and the Manager. This enables the board to better understand shareholders' views. The full board usually attends the Annual General Meeting and the directors make themselves available to answer shareholder questions at all the general meetings of the Company.

The Chairman can be contacted by emailing the Company at Impact.CoSec@jtcgroup.com

Public communications

The Company ensures that any price sensitive information is released to all shareholders at the same time and in accordance with regulatory requirements. All public information and Company announcements released through the London Stock Exchange are made available on the Company's website at <http://www.impactreit.uk>.

Directors' Remuneration report



Annual statement

The creation of the committee responsible for remuneration issues and the approval of its Terms of Reference took place in October 2017. Before this time the whole board undertook this role.

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form the Remuneration & Nomination Committee, comprised of the independent directors.

No director is involved in the setting of their individual package. The general principles for remuneration were set at IPO and remain in force.

The remuneration matters facing the Company during its first year of operation were very straightforward as there were no changes in remuneration policy or quantum from the framework set out at IPO.

We expect that the committee will draw upon benchmarking and advice during the next year to provide objective data upon which to base any decisions for change. We feel it would be appropriate to conduct a review after completing a full cycle of activity with an established governance framework in place. Any changes in quantum are most likely to be driven by reflecting the demands placed on individual directors by the Company.

The Directors' Remuneration Report and the Directors' Remuneration Policy will be presented at the AGM for shareholder consideration for approval.

Rosemary Boot Committee Chair
21 March 2018

Directors' Remuneration Policy

The Company's policy is to determine the level of directors' fees with due regard to the experience of the board as a whole, the time commitment required and to be fair and comparable to non-executive directors of similar companies. The Company may also periodically choose to benchmark directors' fees with an independent review, to ensure they remain fair and reasonable. Directors' fees will be adjusted from time to time (and will be subject to shareholder approval in the subsequent AGM).

The directors may elect to apply the cash amount equal to their annual fee to subscribe for or to purchase ordinary shares.

The directors are entitled only to their annual fee and their reasonable expenses. No element of the directors' remuneration is performance related, nor does any director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The directors hold their office in accordance with the Articles and their appointment letters. No director has a service contract with the Company, nor are any such contracts proposed. The directors' appointments can be terminated in accordance with the Articles and without compensation.

Under the Company's Articles of Association, all directors are entitled to remuneration determined from time to time by the board and approved by the shareholders.

Directors' remuneration

Under the terms of their appointments as non-executive directors of the Company, each director is entitled to an annual fee of £30,000 per annum. The Chairman is paid a further £10,000 per annum in addition to this amount.

Company-wide considerations

There are no executive directors, nor are there any employees of the Company, so there are no statements to make on any consultations, comparisons, or pay and employment conditions within the Company.

Recruitment

The same Policy will be applied for any recruitment purposes.

Statement of consideration of shareholder views

The levels of remuneration were set out in the Prospectus and did not receive any negative comment from the investment community before or after the IPO. As no changes have been considered, the board felt it was not necessary to poll shareholder opinion on remuneration issues prior to the AGM. The AGM will give the opportunity for opinions to be aired and demonstrated

formally through the voting process and will provide the basis for future discussions and developments.

Annual report on Remuneration (audited)

Director	Period fees Total 2017 Audited £
Rupert Barclay (Chairman)	£32,923
Rosemary Boot	£24,692
David Brooks	£24,692
Paul Craig	£15,115
Philip Hall	£24,692

- There are no previous year figures given as this is the first report prepared as a quoted company.
- The figures given apply to a partial year of operation, from 7 March 2017 for all except Paul Craig, who was appointed 30 June 2017.
- In addition, each director is entitled to recover all reasonable expenses properly incurred in connection with performing his or her duties as a director. Directors' expenses for the period to 31 December 2017 totalled £100. No other remuneration was paid or payable during the period to any director.

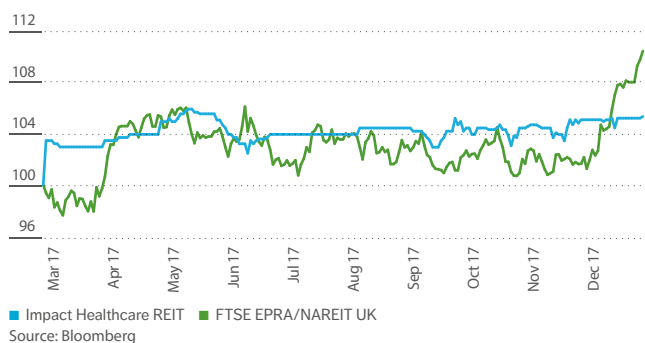
The Company maintains Directors' and Officers' liability insurance cover, at its expense, on the directors' behalf.

Payments to past directors or for loss of office

There are no payments to disclose. Under the terms of the Directors' Remuneration Policy there would be no compensation for loss of office.

Total shareholder return

The graph below shows the total shareholder return of the Company's ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index:



Directors' shareholdings (audited)

There is no requirement for the directors of the Company to own shares in the Company. As at the year end, the directors held the shareholdings listed below.

Director*	Number of shares held	Percentage of issued share capital as at 31 December 2017
Rupert Barclay (Chairman)	100,000	0.1%
Rosemary Boot	30,000	0.0%
David Brooks	30,000	0.0%
Paul Craig**	39,617,784	20.6%
Philip Hall	30,000	0.0%

* Includes directors and persons closely associated (as defined by the EU Market Abuse Regulation) shareholdings.

** These shares are held by funds owned by Old Mutual Global Investors of which Paul Craig is Investment Manager

The shareholdings of the directors other than Paul Craig are not significant and, therefore, do not compromise their independence. Paul Craig has been identified as non-independent as he is an employee of the largest shareholder in the Company, Old Mutual Global Investors.

Statement of implementation of remuneration policy for financial year 2018

There is no change to the Policy, or to the levels of remuneration for the board for 2018.

Committee

The membership, activities and role of the Committee are discussed in the Remuneration and Nomination Committee Report on page 45.

External advisers

The committee has not received any external advice with respect to Remuneration and has not appointed an external remuneration adviser.

Statement of voting at general meeting

The AGM in 2018 is the first year for shareholders to vote on remuneration issues, so there is no voting to disclose in this Report.

Rosemary Boot Committee Chair

21 March 2018

Directors' report

Introduction

The directors are pleased to present the Annual report, including the Company's audited financial statements as at, and for the period ended, 31 December 2017.

The Directors' report, together with the Strategic report comprise the "Management Report", for the purposes of Disclosure Guidance and Transparency Rule 4.1.5R.

Statutory information contained elsewhere in the Annual report

Information required to be part of this Directors' report can be found elsewhere in the Annual report and is incorporated into this report by reference, as indicated below:

Financial results and dividends	page 4
Events subsequent to the year end date	page 88
Future developments	pages 1-31
Corporate Governance Statement	pages 34-55
Directors' names and biographies	pages 42-43
Manager and service providers	page 40
Directors' interests in shares	page 57
Share capital	page 85
Related party transactions	page 86
Financial instruments	page 84

Substantial shareholdings

As at 20 March 2018, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Old Mutual	39,617,784	20.6%
Schroders	28,035,683	14.6%
Premier Asset Management	15,053,576	7.8%
Mahesh Patel	10,000,000	5.2%
Baillie Gifford & Co	10,000,000	5.2%
CCLA Investment Management	7,473,671	3.9%
Gravis Capital	7,450,000	3.9%
Brooks Macdonald	6,925,259	3.6%
Nedbank Investment Advisors	6,347,362	3.3%

Source: Winterflood Securities and DTR 5 Disclosure notices
Based on 192,206,831 ordinary shares in issue as at 31 December 2017.
No individual underlying shareholder or fund owns more than 10%.

The Company only has one class of share.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except as a result of:

- the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- the Company's Articles of Association, which allow the board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or the Manager breaching any law or regulation.
- A lock-in agreement dated 24 January 2017 entered into between the Company, Winterflood and Mahesh Patel, pursuant to which Mr. Patel has agreed, for a period of 12 months following the date of Admission on 7 March 2017 not to offer, sell, contract to sell, grant options over or otherwise dispose of, directly or indirectly any Ordinary Shares issued to him (or any vehicle owned by him) in connection with the acquisition of the Seed Portfolio (a "Disposal"). Pursuant to the terms of the Lock-In Agreement, Mr. Patel has further agreed that, save in certain limited circumstances he will not, directly or indirectly, effect any Disposal other than in accordance with the reasonable requirements of its broker (which relate to ensuring an orderly market for the Ordinary Shares) at any time during the 24 month period which begins on the first anniversary of Admission and ends on the date which is 36 months after the date of Admission.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £7.5 million on the net purchase price of assets acquired in the period.

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Directors' share dealings

The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board will be responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

Greenhouse gas emissions reporting

The board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013.

During the period ended 31 December 2017:

- any emissions from the Group's properties have been the tenants' responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions that are either produced from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Manager's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As such, the board believes that the Company has no reportable emissions for the period ended 31 December 2017.

Political donations

No political donations were made during the period.

Employees

The Group has no employees and therefore no employee share scheme or policies for the employment of disabled persons or employee engagement.

Articles of Association

These are available on our website at <http://www.impactreit.uk/documents> or by application to the Company Secretary. Any amendment to the Company's articles of association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK

The Company does not have any branches outside of the UK.

Powers of the directors

The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

Powers in relation to the Company issuing its shares

Subject to company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

Appointment and replacement of directors

All directors will seek election at the AGM in accordance with the Company's articles of association and the recommendations of the Code.

A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's articles of association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

Independent auditor

BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2018.

Additional information

There are no disclosures required in accordance with LR 9.8.4 R.

Annual General Meeting

The Company's AGM will be held at 10am at Travers Smith LLP, 10 Snow Hill, London EC1A 2AL on 26 April 2018. A copy of the Notice is available on our website at: <http://www.impactreit.uk>.

Signed on behalf of the board by

Rupert Barclay Chairman
21 March 2018

Statements of responsibilities

Directors' statement of responsibilities

The directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS's as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 ("FRS102"), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, a Strategic report, a Directors' remuneration report and a Corporate governance statement that comply with that law and those regulations. These can be found on pages 58, 1, 56 and 34, respectively.

The directors are responsible for ensuring that the Annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Disclosure of information to the Auditor

The directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's Auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Website publication

The directors are responsible for ensuring the Annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at <http://www.impactreit.uk>) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Management Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board by:

Rupert Barclay Chairman
21 March 2018

Independent Auditor's report

to the members of Impact Healthcare REIT plc

Opinion

We have audited the financial statements of Impact Healthcare REIT plc (the 'parent company') and its subsidiaries (the 'Group') for the period 7 November 2016 to 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the parent company balance sheet, the consolidated and parent company statements of changes in equity, the consolidated statement of cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)*.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks going concern and viability statement

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 22 to 24 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 25 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 25 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 25 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of these matters.

Independent Auditor's report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the

audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The table below shows the key audit matters that we identified. This is not a complete list of all risks identified for our audit.

Key audit matter	How the scope of our audit addressed the key audit matter:
<p>Valuation of investment property (See Note 1, Note 11)</p> <p>The valuation of investment property requires significant judgement and estimates by the Directors and their independent valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.</p> <p>The Group owns care home investment properties that are leased to tenant operators under long term rental agreements. The properties are independently externally valued by Cushman & Wakefield (C&W) using the income capitalisation method.</p> <p>Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the consolidated statement of comprehensive income or the consolidated statement of financial position.</p> <p>There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations.</p>	<p>We obtained an understanding of the Group's approach to the valuation of investment properties.</p> <p>We met C&W, who valued all of the Group's investment properties, to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the period.</p> <p>We assessed the competency, independence and objectivity of the independent external valuer which included making inquiries regarding interests and relationships that may have created a threat to the valuer's objectivity.</p> <p>We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors. We assessed the valuation of all investment properties against our own expectations and challenged those valuations which fell outside of our range of expectation.</p> <p>We agreed a sample of key observable valuation inputs supplied to and used by C&W to supporting documentation.</p> <p>We performed a reconciliation of the C&W valuation total to the aggregate fair value of the investment properties in the financial statement.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds. With respect to disclosure and presentational matters, amounts in excess of the quantitative thresholds below may not be adjusted if their effect is not considered material on a qualitative basis.

Materiality	Clearly Trivial	Specific materiality	Clearly Trivial
£1.6 million	£81,000	£350,000	£17,500

Materiality

We consider materiality to be the magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Group financial statements as a whole to be £1.6 million, which was set at 0.8% of Group total assets. We determine the materiality of the parent company financial statements as a whole to be £1.5 million, which was set at 0.8% of the parent company total assets. This provides a basis for determining the nature and extent of our risk procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that the Group total assets would be the most appropriate basis for determining overall materiality as we consider this one of the principal considerations for members of the company in assessing the financial performance of the Group.

We determined the component materiality using the same bases as the Group. Impact Healthcare REIT plc has two subsidiaries at the period end, Impact Property 1 Limited and Impact Property 2 Limited.

We set a specific materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users of the financial statements. In this context, we applied a specific materiality of £0.35 million to those items which may affect EPRA earnings, including revenue, property expenses, administrative expenses, finance cost and finance income and taxation. This specific materiality represents 4.9% of EPRA earnings for the period.

Performance materiality

This is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality for the Group should be 50% of materiality, namely £0.8 million. We used a similar basis for specific materiality.

Reporting threshold

This is the amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £81,000 (5.1% of Group materiality) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £17,500.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Group and its subsidiaries operates solely in the United Kingdom and operates through one segment, investment property. The audit team performed all the work necessary to issue the Group and parent company audit opinions. This includes undertaking all of the audit work on the key risks of material misstatement for all the component entities.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report

In this context, as a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we have a responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 36** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 49 to 52** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 35** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibility statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We consider that the audit procedures we have undertaken in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatement or other irregularities that would not be considered to be material to the financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors in September 2017 to audit the financial statements for the period ended 31 December 2017 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Richard Levy (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
21 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).